BelAir
ENERGY CORPORATION

2000 Annual Report

Corporate Information

Board of Directors

C. David Banks (1),(2)
Calgary, Alberta

Victor M. Luhowy (2),(3)
Priddis, Alberta

Kenneth D. MacRitchie
Calgary, Alberta

Owen C. Pinnell (1),(2)
Calgary, Alberta

Murray D. Sears 1)
Calgary, Alberta

Harry B. Wheeler
Calgary, Alberta

Mark D. Widney (3)
Ardrossan, Alberta

(1) Audit Committee
(2) Compensation Committee
(3) Environment and Safety Committee

Officers

Victor M. Luhowy, President and Chief Executive Officer

Andrew I. Burnett, Vice President, Exploration

Kenneth D. MacRitchie, Vice President, Finance and Chief Financial Officer

Kurt D. Miles, Vice President, Land

Kenneth T. A. Skea, Vice President, Production

Wayne R. Wilson, Vice President, Corporate Development

Ross O. Drysdale, Corporate Secretary

Annual General Meeting

The annual general meeting of the shareholders of BelAir Energy Corporation will be held on May 15, 2001, at 9:00 a.m. in the Strand Tivoli Room at the Metropolitan Center, 333 4th Avenue, S.W., Calgary, Alberta.

Shares

14,335,750 Common Shares (basic)
16,347,000 Common Shares (fully diluted)

Auditors

KPMG LLP
1200, 205 5th Avenue, SW
Calgary, Alberta

Banking

National Bank of Canada
600, 407 8th Avenue, SW
Calgary, Alberta

Evaluation Engineers

Ashton Jenkins Mann
1430, 734 7th Avenue, SW
Calgary, Alberta

Legal Counsel

McCarthy Tetrault
3300, 421 7th Avenue, SW
Calgary, Alberta

Stock Exchange

TheToronto Stock Exchange, TSE.
Trading Symbol: "BEC"

Transfer Agent

Olympia Trust Company
2600, 700 9th Avenue, SW
Calgary, Alberta

Corporate Office

400 First Alberta Place
777 8th Avenue, SW
Calgary, Alberta T2P 3R5
Telephone: 403 265 1411
Facsimile: 403 263 8119
Website: www.belairenergy.com

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› Stock Exchange under the symbol "BEC".
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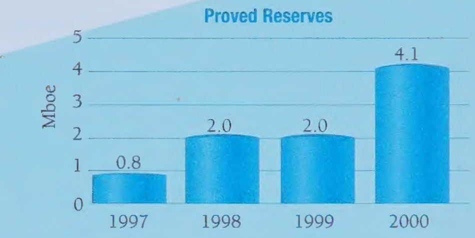

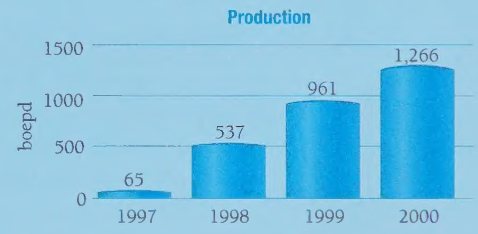

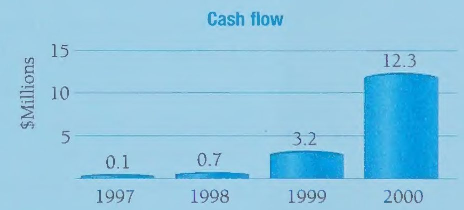

Strategies for 2001

BelAir will continue to pursue the growth strategies that were successful in 2000.

- Continue the full cycle exploration strategy in core areas, targeting natural gas.
- Identify and acquire undeveloped land with exploration potential primarily for natural gas in central and northwestern Alberta.
- Consolidate assets by increasing interests in core areas through asset and corporate acquisitions, and disposing of non-core assets.

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Strategies

BelAir Energy Corporation is an emerging oil and natural gas company headquartered in Calgary, Alberta and is listed on The Toronto Stock Exchange under the symbol "BEC". BelAir was incorporated in 1996 and, since then, has undergone rapid growth based on effective strategies.

Growth Strategies:

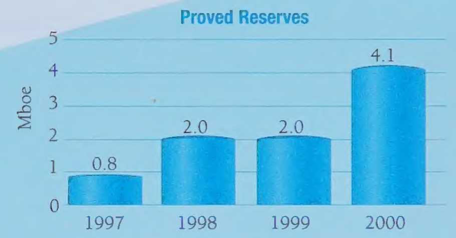
Phase One: Build reserves, production and cash flow through asset and corporate acquisitions. Completed: 1997/1998

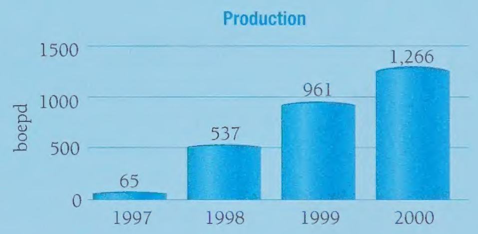
Phase Two: Exploit the potential in the acquisitions made in Phase One. Completed: 1998/1999

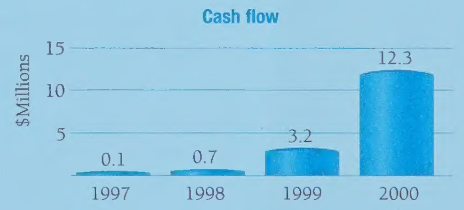
Phase Three: Implement a full cycle exploration strategy in core areas using our strong undeveloped land position in Alberta, complemented by secondary strategies of asset consolidation and asset and corporate acquisitions. 2000 was the transition year to the full cycle exploration strategy.

2000 Accomplishments:

- Acquired CrownJoule Exploration Ltd. that transformed BelAir into a natural gas producer and added a new core area in Doris, in northwestern Alberta.
- Increased core area and processing facility interests in Penhold, in central Alberta, through an asset acquisition.
- Increased core area interests in Crossfield, in central Alberta, through land and asset acquisitions.
- Disposed of 400 boepd of production in non-core assets.
- Drilled 23 gross, 11 net wells in central and northwestern Alberta.
- Increased proved reserves to 4.1 million boe (10:1) in 2000 with net reserve additions of 2.6 million boe for a reserve replacement to production ratio of 5.6 to 1.
- Exited 2000 at 1,750 boepd with 80% of production in natural gas.
- Almost quadrupled cash flow from $3.2 million in 1999 to $12.3 million in 2000.







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BelAir enters the new century looking quite different...We enter this phase of our growth in an interesting and dynamic exploration environment.

"Re-Styling BelAir" Adds Shareholder Value

The year 2000 was the fourth continuous year of growth for BelAir. It was also a year in which we radically "re-styled" BelAir! With the successful implementation of our strategies and by achieving three major accomplishments, BelAir added value for our shareholders and enters the new century looking quite different.

First, we became a driller and an explorer. We began Phase Three of our growth strategy, creating value through the drill bit, and drilled more wells in 2000 than we had drilled in all of the previous years of BelAir's existence. The results of our drilling program in terms of reserves added and the cost of those additions are detailed later in this report. We enter this phase of our growth in an interesting and dynamic exploration environment in the western Canadian sedimentary basin. Many of our competitors have been purchased by energy trusts that, by the nature of their business, are not interested in exploration. In addition, the major companies are focusing their exploration resources in the Canadian frontiers. These developments provide a competitive advantage to emerging exploration companies such as BelAir.

Our second major accomplishment in the last year was increasing our exposure to natural gas. Late in 1999, we recognized the strong market fundamentals that were developing in the North American gas market. We implemented a gas acquisition strategy that resulted in the takeover of CrownJoule Exploration Ltd. which increased the portion of natural gas of our production from 37% to 60%. During the fourth quarter, 72% of our production was natural gas.

We were rewarded by this strategy as natural gas prices increased from $2.80 per mcf in December of 1999 to $12 per mcf that we received in December of 2000. The Doris field, which was CrownJoule's main asset, now makes up one third of our production and 45% of our net operating income.

Third, we consolidated our assets, that had extended from southeastern Saskatchewan through Alberta and up into British Columbia, into central and northwestern Alberta in three focus areas – Crossfield and Penhold in central Alberta and Doris in northwestern Alberta. We sold our assets in southeastern Saskatchewan as well as minor assets in Alberta that were not in our focus corridor. We also acquired assets to complement our focus areas particularly in the Penhold area.

With higher product prices and the increase in production, our cash flow almost quadrupled over last year. In addition, we almost doubled our net asset value over the year. BelAir's share price reacted favorably, increasing 63% from $1.50 at the close of 1999 to $2.45 at the end of this year.

We will be pursuing the same growth strategies that provided us with very successful results during 2000.

2000 Accomplishments

- Implemented Phase Three of our growth strategy of creating value through the drill bit. Over the year, we drilled 23 gross (10.7 net) resulting in:

  15 gross (7.4 net) gas wells,
  3 gross (0.9 net) oil wells, and
  5 gross (2.4 net) abandonments,

  for an overall success rate of 78%. During Phases One and Two of our growth strategy (acquisitions and exploitation) in the two and a half previous years of our operational history we had drilled only 14 gross (7.8 net) wells.

- Consolidated our assets, which had extended from southeastern Saskatchewan, through most of Alberta and into northeastern British Columbia, into three core areas in central and northwestern Alberta.

- Increased annual average production by 32%, from 961 boepd during 1999 to 1,266 boepd during 2000. We produced an average of 1,600 boepd during the month of December, an increase of 45% over production during December of 1999.

- Increased cash flow to $12.3 million, almost four times the cash flow generated during 1999. Cash flow on a per share basis more than doubled to $1.13 per average weighted share.

- Increased net earnings to $4.7 million, almost five times the earnings generated during 1999. Earnings on a per share basis almost tripled to $0.44 per average weighted share.

- Added 3,165 Mboe of established reserves while producing 463 Mboe.

- Achieved an "all-in" finding, development and acquisition cost of $10.60 per established boe. The resulting re-cycle ratio for the year was 2.5 to 1.0. Our four-year rolling average finding, development and acquisition cost is $8.95 per established boe.

- Completed a flow-through share issue of 1.5 million common shares at $3.00 per share that raised a net $4.1 million for BelAir.

- Completed our management team with the addition of Mr. Kurt Miles as Vice President, Land.

- Almost doubled our undeveloped land position from 76,500 net acres to 135,000 net acres.

- Decreased General and Administrative ("G & A") costs from $3.54 per boe to $3.25 per boe.

- Added Mr. Harry Wheeler, who has over 38 years of experience in the oil and gas industry, to our Board of Directors.

- Doubled our net asset value per share from $2.48 per share at the beginning of the year to $5.30 per share.

Please refer to other areas in this report for more details on the various items discussed above.

2001 Strategies

During 2001, we will be pursuing the same growth strategies that provided us with very successful results during 2000.

Exploration and drilling – We have set a capital budget of $23 million, the majority of which will be spent to drill 50 gross (23 net) and, as last year, we will drill more wells in 2001 than the total number of wells drilled since the inception of BelAir. The budget also includes funds to purchase additional land and to shoot or acquire seismic.

Asset Consolidation – Through our consolidation strategy during 2000, we have focused our efforts into three main areas – Crossfield and Penhold in central Alberta and Doris in northwestern Alberta. We still have a number of "non-core" properties that we will sell during 2001 and use the proceeds to increase our holdings in the three core areas.

Acquisitions – Acquisition of assets is very expensive. When we started BelAir just a few years ago in 1997, we acquired production at an average price of $16,000 per boepd. Late in 2000 and early 2001, production is being purchased at prices as high as $60,000 per boepd. Many companies are trading at low cash flow multiples and at considerable discounts to their net asset values. We will continue to focus on corporate acquisitions, using the skills we have gained completing three corporate acquisitions in the past three years.

2001 Outlook

Product Prices – We forecast that product prices will remain strong throughout 2001, although not as high as the prices that we had received during the latter part of 2000. The increase in demand for natural gas, especially in the US to generate electricity, will outpace the small growth in supply over the next few years until frontier gas comes on stream. Consequently, we are forecasting average AECO spot prices of $7 per mcf for the year 2001, with higher prices in the first quarter during winter heating season, softening through the spring and summer into the third quarter and then picking up again for the fourth quarter. On the crude oil front, if OPEC continues to proactively manage supply, we forecast that oil prices will remain fairly stable over the year. We are forecasting an average WTI price of $24.50 per barrel over the year, with higher prices during the first part of the year and then softening as the year closes.

Production and Cash Flow – With our solid production base and our 2001 capital program as outlined above, we are forecasting considerable growth in production and cash flow. Currently, we are producing approximately 1,900 boepd so our average production for the year will be considerably higher than the average rate of 1,266 boepd during last year. With higher production and reasonable product prices as discussed above, our cash flow should double that of 2000.

Corporate Governance

Proper corporate governance of our company by our Board of Directors is an important issue for all of us at BelAir and one that we take very seriously as a publicly traded company. One of the most important factors in fostering proper corporate governance is maintaining the independence of our Board. We ensure the independence of our Board by having five independent Directors out of a total of seven on the Board. Another critical measure of proper corporate governance is to maintain the independence of our Board committees that are responsible for important corporate issues. To this end, each of our Board committees is composed of a majority of independent Directors. The critical Audit Committee is composed entirely of independent Directors. This year, the mandate of the Audit Committee was expanded to include a review of the Engineering Reserves Report and to meet with the engineering firm, Ashton Jenkins Mann, who evaluated our reserves and prepared the independent report. This year, we also initiated an Environmental and Safety Committee with the mandate to review and ensure that BelAir operates within the requirements of our environmental and safety policy.

These are a few examples of BelAir's approach to corporate governance and more detail is set out further on in this report.

Employee, Director and Shareholder Support

We thank all our employees and contractors for their hard work and dedication during this very active year. Your contribution and personal care for BelAir makes us successful. To our shareholders, we trust that your patience over the years has been rewarded during this year and that we can provide you more benefit in the future. And finally, we thank our Directors who provide us guidance and the benefits of their experience towards the growth of BelAir.

Victor Luhowy

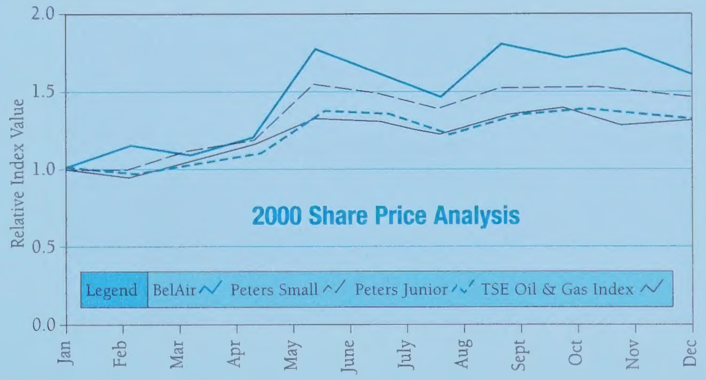
Victor M. Luhowy
President and CEO

March 1, 2001

Historical Perspective

Year ended December 31	*2000*	*1999*	*1998*	*1997*
Financial (in $ millions, except per share)				
Petroleum and Natural Gas Sales	23.6	8.9	3.7	0.5
Cash Flow from Operations	12.3	3.2	0.7	0.1
Per Share - Basic	1.13	0.53	0.24	0.24
Per Share - Fully Diluted	1.04	0.48	0.20	0.19
Net Earnings	4.7	1.0	(3.1)	(0.1)
Per Share - Basic	0.44	0.17	(1.00)	(0.10)
Per Share - Fully Diluted	0.40	0.15	(0.85)	(0.09)
Net Capital Expenditures	33.6	4.0	12.4	6.4
Total Assets	55.3	19.3	16.1	8.3
Working Capital Surplus (Deficiency)	(0.5)	0.1	(0.9)	(1.2)
Long Term Debt	10.5	3.8	3.7	0.6
Shareholders' Equity	26.2	11.7	9.4	6.0
Operating				
Production				
Natural Gas (Mcf/d)	7,687	3,632	2,462	449
Oil (bpd)	382	525	219	9
Natural Gas Liquids (bpd)	115	72	72	10
Total (boepd, 10:1)	1,266	961	537	65
Total (boepd, 6:1)	1,779	1,203	701	95
Pricing				
Natural Gas ($/Mcf)	5.86	2.76	1.97	2.05
Oil ($/bbl)	39.38	25.26	19.30	16.28
Natural Gas Liquids ($/bbl)	38.48	17.97	13.48	23.16
Total ($/boe)	50.95	25.58	18.72	20.30
Proven plus Probable Reserves				
Natural Gas (Bcf)	50.1	16.4	13.3	6.8
Crude Oil and NGLs (Mstb)	1,250	1,343	1,375	453
Total (Mboe)	6,263	2,987	2,701	1,130
Net Present Value ($ millions discounted at 10%, before income taxes)	103.8	23.8	16.6	8.8
Net Present Value ($ millions discounted at 15%, before income taxes)	98.3	20.5	13.8	7.3

Undeveloped Land (in thousands of acres)	*2000*	*1999*	*1998*	*1997*
Gross Acres	288.3	170.2	211.6	64.9
Net Acres	139.4	76.5	103.6	19.3
Working Interest	48%	45%	49%	30%
Common Share Information				
Share Price ($/share)				
High	2.55	2.24	4.80	6.08
Low	1.13	1.15	1.04	2.64
Close	2.45	1.50	1.76	4.40
Volume Traded (in millions)	4.8	1.2	0.4	0.7
Shares Outstanding at Year End (in millions)				
Basic	14.3	7.1	5.9	2.2
Fully Diluted	16.4	7.7	6.5	2.9
Weighted Average Shares Outstanding for the Period (in millions)				
Basic	10.8	5.9	3.1	0.5
Fully Diluted	11.8	6.6	3.7	0.6
Market Capitalization (in $ millions)	35.1	10.6	10.4	9.6
Close Price ($/share) at Year End	2.45	1.50	1.76	4.40



BelAir

Operations

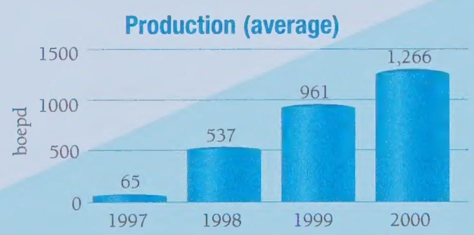
Production

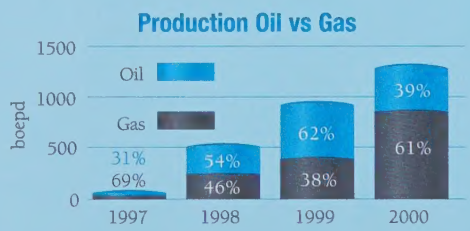
Principal Producing Areas

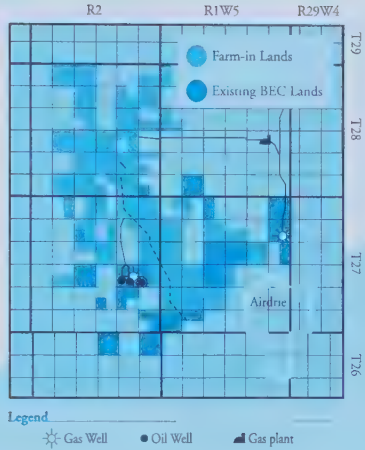
Average production for the 10 principal producing areas during the fourth quarter of 2000.

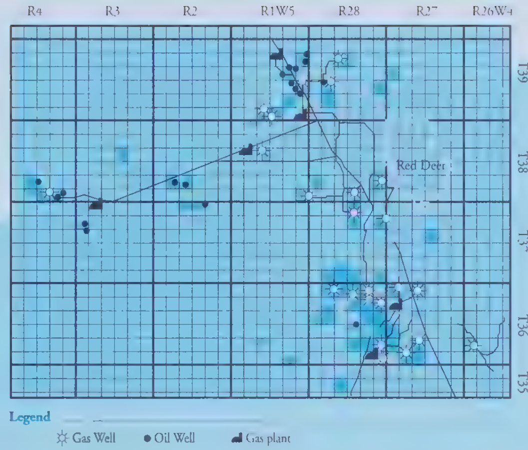
Area	*Operated/ Non-operated*	*Gas (Mcf/d)*	*NGLs (bpd)*	*Oil (bpd)*	*Equivalent 10:1 (boepd)*	*Equivalent 6:1 (boepd)*
Doris, AB	Op/Non-Op	5,043	27	0	531	867
Penhold, AB	Op	2,509	94	85	430	597
Erskine, AB	Op	30	1	81	85	87
Garden Plains, AB	Op	690	5	0	74	120
Crossfield, AB	Op/Non-Op	164	7	20	43	54
Calling Lake, AB	Non-op	350	0	0	35	58
Kakwa, AB	Non-op	326	1	0	34	55
Red Willow, AB	Op	281	0	0	28	47
Joarcam, AB	Op	0	0	23	23	23
Minnehik, AB	Op	166	1	4	22	33
Top 10 Properties		9,558	213	137	1,306	1,943
Minor Properties		1,015	37	19	158	225
Total		10,573	250	156	1,463	2,168

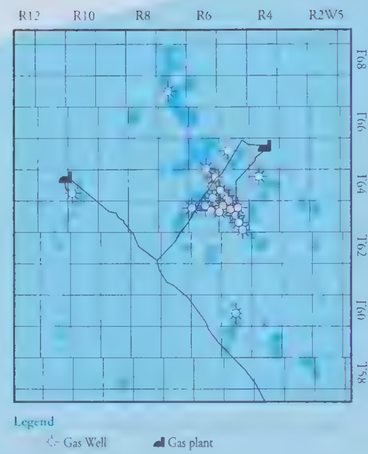
		2000	*1999*	*1998*	*1997*
Production per boe	10:1	1,266	961	537	65
	6:1	1,779	1,203	701	95











Crossfield

Crossfield was acquired in early 2000. The area is prospective for oil and gas in the Mississippian Banff, Pekisko, and Elkton formations. In addition the Jurassic Rock Creek, Cretaceous Basal Quartz and Viking Formations are prospective for gas. The greater Crossfield area is one of BelAir's major exploration efforts in 2001.

Working Interest:	15% to 50%
Producing Wells:	3 producing oil wells and 3 producing gas wells
Facilities:	Working interest of 17% in a gas plant and 29% working interest in a battery
Land Holdings:	11,600 gross acres (3,300 net acres) and 26,000 acres of farm-in land
December 2000 Production:	100 boepd (10:1 ratio), 140 boepd (6:1 ratio)

2000 Highlights:

- Increased production to 100 boepd
- Drilled one well

Plans for 2001:

- 4 new locations to drill
- 3 re-entries

Penhold

We acquired Penhold late in 1998 and expanded this holding with the August 2000 acquisition of assets and a gas plant.

Working Interest:	10% to 100%
Producing Wells:	42 producing wells
Facilities:	Gas production is processed in two different plants. BelAir's ownership is 100% working interest in the Outlook Gas Plant and 7% working interest in another plant. The Outlook Gas Plant also generates third party processing revenue of $50 thousand per month.
Land Holdings:	19,800 gross acres (8,900 net acres)
December 2000 Production:	500 boepd (10:1 ratio), 750 boepd (6:1 ratio)

2000 Highlights:

- Acquired assets and a gas plant
- Tied in 4 wells
- 9 workovers

Plans for 2001:

- 3 new locations to drill
- 13 workovers

Doris

BelAir Energy acquired its Doris property through the takeover of CrownJoule Exploration in May of 2000. It is the company's largest producing area at 650 boepd (10:1 ratio), 1,050 boepd (6:1 ratio).

Working Interest:	34% to 100%
Producing Wells:	22 producing wells
Facilities:	17% & 19% working interests in two gas plants
Land Holdings:	170,000 gross acres (68,000 net acres)
December 2000 Production:	650 boepd (10:1 ratio), 1,050 boepd (6:1 ratio)

2000 Highlights:

- Drilled 12 wells

Plans for 2001:

- 18 new locations to drill

Wendy Irvine
Executive Assistant

Ken T.A. Skea
Vice President, Production

Andrew I. Burnett
Vice President, Exploration

Victor M. Luhowy
President and CEO

Wayne R. Wilson
Vice President, Corporate Development

Kurt Miles
Vice President, Land

Ken D. MacRitchie
Vice President, Finance and CFO

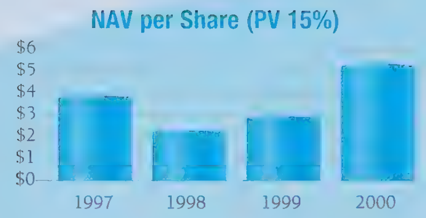
Management Team

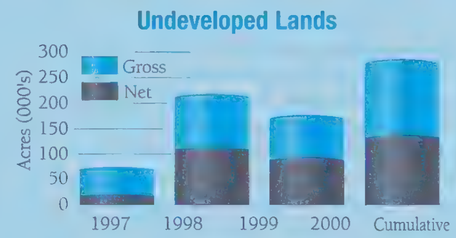
Management's Discussion and Analysis of Financial Condition and Results of Operation

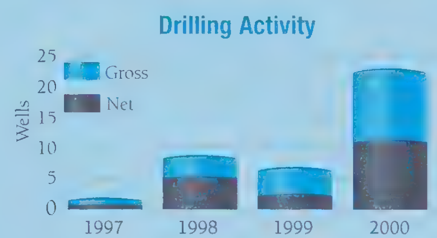
The following discussion should be read in conjunction with the financial statements commencing on page 26 of this annual report.

Highlights

- In 2000, BelAir continued to grow with average daily production increasing by 32% to 1,266 boepd in 2000 from 961 boepd in 1999. BelAir's 2000 exit production was 1,750 boepd, notwithstanding the disposition of 400 boepd of production from non-core assets.
- Commodity prices improved throughout 2000 with natural gas prices averaging $5.86 per mcf, an increase of 112% over $2.76 per mcf in 1999; crude oil prices averaged $39.38 per bbl, an increase of 56% over $25.26 per bbl in 1999.
- Cash flow for 2000 was $12.3 million, almost four times greater than the cash flow of $3.2 million in 1999.
- Cash flow per weighted average basic common share more than doubled to $1.13 per share in 2000 from $0.53 per share in 1999.
- Net income for 2000 was $4.7 million, almost four times greater than net income of $1.0 million in 1999.
- Net income per share increased 159% to $0.44 per share in 2000 from $0.17 per share in 1999.
- Net asset value per share increased 84% to $5.31 per share in 2000 from $2.89 per share in 1999 .
- BelAir added 2,592 Mboe of proved reserves while producing 463 Mboe in 2000, for a replacement ratio of 5.6 to 1.
- Capital expenditures including the acquisition of CrownJoule Exploration and net of dispositions, were $33.6 million. This resulted in "all-in" finding, development and acquisition cost of $10.60 per established boe in 2000.
- BelAir achieved a net debt to trailing cash flow ratio of 0.9 to 1. BelAir's internally imposed ratio limit of net debt to forward cash flow is 1.5 to 1.
- BelAir raised $4.1 million in a flow-through share financing completed in December 2000.







Ken T.A. Skea
Vice President, Production

Andrew I. Burnett
Vice President, Exploration

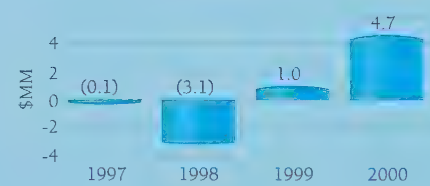
Sue Kowalchuk
Technical Assistant

Jan Knytl
Geologist

Kurt Miles
Vice President, Land

Exploration & Operations Team

Earnings



Undeveloped Lands

A strong position in undeveloped land is an important factor in the future growth of an oil and gas company. BelAir's exploration and development program is dependent upon its land position. At the end of 2000, BelAir's undeveloped land position was as follows:

(In thousands of acres)	*2000* Gross	Net	*W.I.* %	*1999* Gross	Net	*W.I.* %	*1998* Gross	Net	*W.I.* %
Alberta	257.9	120.5	47	129.0	49.2	38	163.6	72.2	44
British Columbia	3.8	0.4	11	5.7	1.7	19	5.7	1.1	19
Saskatchewan	13.6	13.6	100	31.8	25.5	80	37.5	29.3	78
Manitoba	0.5	0.1	20	3.6	0.7	18	4.7	1.0	21
Total	275.8	134.6	49	170.2	76.5	45	211.6	103.6	49

Drilling

In 2000, BelAir drilled more wells than in all of the previous years since its inception four years ago.

	2000 Gross	Net	*1999* Gross	Net	*1998* Gross	Net
Natural gas	15.0	7.4	1.0	0.8	2.0	1.0
Crude Oil	3.0	0.9	1.0	0.0	4.0	3.5
Dry and Abandoned	5.0	2.4	4.0	1.8	2.0	0.6
Total	23.0	10.7	6.0	2.6	8.0	5.2
Success Rate	78%	78%	33%	33%	75%	88%

Reserves

The natural gas, natural gas liquids (NGLs) and crude oil reserves have been evaluated as at December 31, 2000 (the "Report") by the independent engineering evaluation firm of Ashton Jenkins Mann ("AJM").

The properties were evaluated by AJM on a reserve and economic forecast basis in accordance with National Policy 2-B (Guide for Engineers and Geologists Submitting Oil and Gas Reports to Canadian Provincial Securities Administrators) definitions. The evaluators of AJM are qualified and professional engineers and geologists and are independent of BelAir.

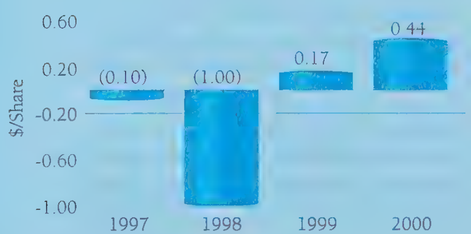
AJM has no responsibility to update their Report for events and circumstances occurring subsequent to the date of their report.

Review of Reserves by the Board of Directors

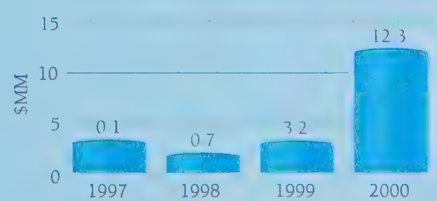
BelAir's Board of Directors has been fully informed on management's discussions with AJM with regard to the scope of the Report, the meetings held with management of BelAir and the risk areas in the Report.

The Board of Directors has conducted certain additional due diligence in conjunction with its review of the Company's reserves for the year ended December 31, 2000. The Board of Directors through the Audit Committee met independently with AJM to review the Report and was satisfied with the process that had been used in the preparation of the Report. The Board of Directors and the management of BelAir recognize that the ultimate responsibility for the reserves rests with BelAir.

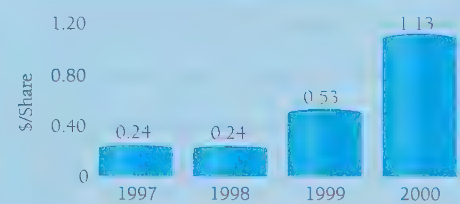
Earnings per weighted average share



Cash flow



Cash flow per weighted average share



Summary of 2000 Reserves

In 2000, BelAir replaced produced reserves of 463 Mboe and added 3,739 Mboe of proved and probable reserves.

The volumes and present values of BelAir's petroleum and natural gas reserves have been evaluated as at December 31, 2000, in the Report. The 2000 reserve volumes presented in the following tables represent an increase of 107% in developed reserves from 1,997 Mboe to 4,126 Mboe while proved plus probable reserves increased by 110% from 2,987 Mboe to 6,263 Mboe. The reserves replacement ratio is 5.6 times on a total proved basis and 8.1 times on a proved and probable basis. Of the total proved and probable reserves added, 98% were natural gas and 2% were oil and NGLs. The Report estimates additional capital of $2.6 million will be required to bring proved undeveloped reserves into production plus an additional $1.1 million to bring probable reserves into production.

Based on an average 2000 production rate of 1,266 boepd, the reserve life index is 8.9 years for the proved reserves and 13.6 years for proved plus probable reserves. BelAir's objective in 2000 was to optimize its reserve holdings by bringing into production much of its proved undeveloped and probable reserves while increasing reserve life index.

The present value of reserves is based on estimates of annual reserves production and related prices and costs including additional required capital expenditures.

The following prices were used to calculate the reserves value:

	2001	2002	2003	2004	2005
Crude oil (US$ WTI/bbl.)	27.00	24.48	22.37	21.22	21.65
Natural gas *(C$/MMBtu)	7.70	5.50	4.40	4.20	4.30

*AECO Hub prices

Summary of Reserves

BelAir's working interest in reserves before royalties are as follows:

Summary of Reserves Volumes as at December 31, 2000.

Present Value of Net Production Revenue (in millions of dollars)(1) Before Income Taxes, Escalated Prices

	Crude Oil Mstb	NGLs Mstb	Natural Gas Bcf	Total Mboe (10:1)	Total Mboe (6:1)	Discount Rates 0%	10%	15%	20%
Proved Developed	432	341	21.1	2,880	4,285	75.0	57.8	52.7	48.8
Proved Undeveloped	17	132	11.0	1,247	1,978	26.6	18.8	16.3	14.3
Total Proved	449	473	32.0	4,126	6,263	101.6	76.6	69.0	63.1
Probable (Unrisked)	111	217	18.1	2,137	3,343	47.7	27.2	22.3	18.9
Total Proved+Probable	560	690	50.1	6,263	9,606	149.3	103.8	91.3	82.0

1. The values shown may not necessarily be the fair market value of reserves.

Reconciliation of Reserves	*Proved* Mboe(3)	*Proved+Probable* Mboe(3)	*Established(1)* Mboe(3)	*Capex* $millions	*FD&A(2) Costs* Proved Per boe	*FD&A(2) Costs* Established Per boe	*Rolling Average FD&A Costs* Proved Per boe	*Rolling Average FD&A Costs* Established Per boe
Reserves December 31, 1996	0	0	0					
Net Reserves Additions	804	1,154	979	6.5	$8.05	$6.61	$8.05	$6.61
Less: 1997 Production	(24)	(24)	(24)					
Reserves December 31, 1997	780	1,130	955					
Reserves December 31, 1997	780	1,130	955					
Net Reserves Additions	1,407	1,766	1,589	12.4	$8.81	$7.82	$8.24	$7.11
Less: 1998 Production	(196)	(196)	(196)					
Reserves December 31, 1998	1,992	2,701	2,348					
Reserves December 31, 1998	1,992	2,701	2,348					
Net Reserves Additions	356	637	497	4.0	$11.21	$8.05	$8.66	$7.26
Less: 1999 Production	(351)	(351)	(351)					
Reserves December 31, 1999	1,997	2,987	2,494					
Reserves December 31, 1999	1,997	2,987	2,494					
Net Reserves Additions	2,592	3,739	3,165	33.6	$12.95	$10.60	$10.81	$8.96
Less: 2000 Production	(463)	(463)	(463)					
Reserves December 31, 2000	4,126	6,263	5,196					

1. Established reserves are proved plus half of probable reserves. 2. Finding, Development and Acquisition costs. 3. Natural gas converted to boe at 10:1.

Reserves Replacement

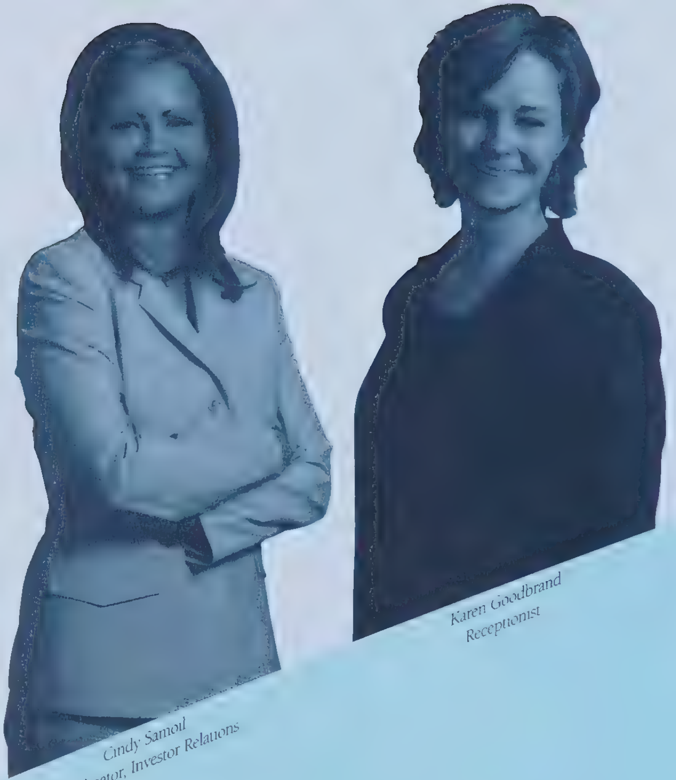
	1997-2000 Mboe	2000 Mboe	1999 Mboe	1998 Mboe	1997 Mboe
Proved Reserves					
Production	1,033	463	350	196	24
Reserve Additions	5,159	2,592	356	1,407	804
Replacement Ratio	5.0	5.6	1.0	7.2	33.5
Established Reserves					
Reserve Additions	6,229	3,165	497	1,588	979
Replacement Ratio	6.0	6.8	1.4	8.1	41.0

Recycle Ratio

	1997-2000	2000	1999	1998	1997
Cashflow from operations ($/boe)	15.80	26.54	9.10	3.78	4.48
Proved FD&A costs ($/boe)	10.94	12.95	11.21	8.81	8.05
Proved Recycle Ratio	1.4	2.0	0.8	0.4	0.6
Established FD&A costs ($/boe)	9.06	10.60	8.05	7.82	6.61
Established Recycle Ratio	1.7	2.5	1.1	0.5	0.7

Net Asset Value

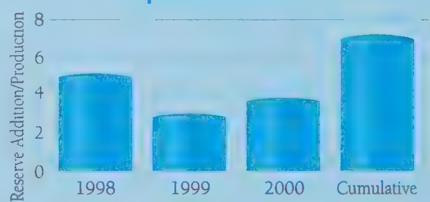
(In millions of dollars)	2000		1999		1998		1997	
Discount Factor	10%	15%	10%	15%	10%	15%	10%	15%
Proved Reserves	76.6	69.0	16.4	14.4	12.8	10.9	6.3	5.4
Probable Reserves (50%)	13.6	11.2	3.7	3.1	1.9	1.5	0.6	0.5
Proved+ 50% Probable Reserves	90.2	80.2	20.1	17.5	14.7	12.4	6.9	5.9
Undeveloped land (market value)	6.8	6.8	3.8	3.8	5.2	5.2	1.0	1.0
Working Capital surplus (deficiency)	(0.5)	(0.5)	0.1	0.1	(0.9)	(0.9)	0.3	0.3
Long term debt	(10.5)	(10.5)	(3.8)	(3.8)	(3.7)	(3.7)	(0.6)	(0.6)
Net asset value	86.0	76.0	20.2	17.6	15.3	13.0	7.6	7.6
Common shares outstanding at year end (in millions of shares)	14.3	14.3	7.1	7.1	5.9	5.9	2.2	2.2
Net asset value per share	$6.01	$5.31	$2.85	$2.48	$2.59	$2.20	$3.45	$3.00



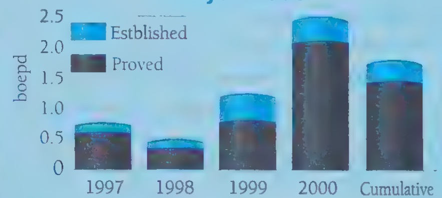
Cindy Samoil
Coordinator, Investor Relations

Karen Goodbrand
Receptionist

Replacement Ratio



Recycle Ratio



Operations

The following is a comparison of key operational statistics for 2000, 1999 and 1998:

	2000	% change	1999	%change	1998
Operating Statistics					
Sales					
Oil (bpd)	382	-27%	525	140%	219
NGLs (bpd)	115	60%	72	–	72
Gas (Mcf/d)	7,687	112%	3,632	48%	2,462
Total boe/d (10:1)	1,266	32%	961	79%	537
Total boe/d (6:1)	1,778	48%	1,202	71%	701
Prices					
Oil ($/bbl.)	39.38	56%	25.26	31%	19.30
NGLs ($/bbl.)	38.48	114%	17.97	33%	13.48
Gas ($/Mcf)	5.86	112%	$2.76	40%	$1.97
$/boe (1)	50.95	99%	25.58	37%	18.72
Financial per$/boe (1)					
Oil and Gas Revenue	50.95	99%	25.58	37%	18.72
Royalties expense	10.15	83%	5.55	41%	3.94
Operating Expense	9.03	32%	6.84	2%	6.70
Netback	31.77	141%	13.19	63%	8.08
General & Administrative Expense	3.26	-9%	3.54	-14%	4.13
Interest Expense	2.18	134%	0.93	22%	0.76
Corporate Tax Expense	0.39	–	–	–	–
Cash Flow from oil and natural gas operations	25.94	197%	8.72	173%	3.19
Other Income, net	0.57	50%	0.38	-36%	0.59
Cash Flow	26.51	191%	9.10	141%	3.78
Depletion, Depreciation expense	8.62	43%	6.02	-69%	19.45 (2)
Site Restoration expense	0.37	-24%	0.49	32%	0.37
Non cash gain	–	–	0.30	–	–
Future Income Taxes	7.31	–	–	–	–
Net Income	10.21	253%	2.89	118%	(16.04)

1. Natural gas conversion to boe at 10:1.
2. Includes ceiling test write down of $12.75 /boe.

	2000	% change	1999	%change	1998
Shares					
Weighted Avg. Outstanding	10,848,205	81%	5,986,508	91%	3,142,231
Weighted Avg. fully diluted	11,793,708	78%	6,643,165	80%	3,691,438
Basic Outstanding at year end	14,335,750	102%	7,088,659	21%	5,872,144
Fully Diluted at year end	16,347,000	112%	7,723,659	18%	6,519,540
Cash flow (basic)	$1.13	113%	$0.53	121%	$0.24
Cash flow (fully diluted)	$1.04	117%	$0.48	140%	$0.20
Earnings per share (basic)	$0.44	159%	$0.17	117%	($1.00)
Earnings per share (fully diluted)	$0.40	167%	$0.15	118%	($0.85)

Oil and Gas Revenue

Revenue from petroleum and natural gas sales in 2000 benefited from an increase of almost 100% in the blended average price of oil, NGLs and natural gas. Blended commodity prices averaged $50.95 per boe in 2000, compared to $25.58 per boe in 1999. Average prices for the year were increased significantly in the final three months of 2000. During the fourth quarter of 2000, BelAir's average oil price was $41.81 per barrel and natural gas prices averaged $8.63 per mcf for a blended commodity price of $74.21 per boe, compared to $34.05 and $3.16 for oil and natural gas average prices respectively and a blended commodity price of $32.50 per boe in the fourth quarter of 1999. Revenues in 2000 were derived 23% from crude oil sales, 7% per cent from NGLs sales and natural gas sales contributed 70%.

Royalties

Royalties associated with product revenues amounted to $4,704,502 or $10.15 per boe compared to $1,945,357 or $5.55 per boe in 1999. Royalties as a percentage of revenue in 2000 declined to 20% from 21% in 1999.

Operating Expenses

Operating expenses increased 32% to $9.03 per boe in 2000 compared to $6.84 per boe in 1999. In 2000, higher operating costs associated with processing natural gas increased as BelAir became primarily a natural gas producer. In 2000, BelAir targeted the strategic disposition of approximately 400 boepd, primarily oil properties in southeast Saskatchewan that had low netbacks as a result of high royalties and operating costs. BelAir reinvested the disposal proceeds into natural gas producing properties in core areas in central Alberta.

Other Income

Other income for the year amounted to $264,497 compared to $233,309, an increase of 13% over 1999. Other income is primarily earned by processing and by transporting third party production. In 1999, other income included a onetime $100,000 non-cash gain on the settlement of a debenture redeemed on July 1, 1999.

General and Administrative Expense

General and Administrative ("G & A") costs on a unit of production basis decreased 9% from $3.54 per boe in 1999 to $3.26 per boe 2000 as costs were spread over greater average production in 2000. Capitalized G & A expense in 2000 amounted to $147,365 or 10% of total G & A costs. In 1999, BelAir capitalized $102,847 or 8% of its G & A costs. BelAir expects to capitalize 15% of its G & A costs in 2001.

Interest and Long Term Debt

BelAir has credit facilities with the National Bank of Canada in the amount of $19 million consisting of a revolving line of credit of $15 million, which was drawn to $10.5 million at year end, and a $4 million non-revolving line of credit to facilitate the acquisition of proven producing reserves and for projects that specifically move non-producing reserves on stream into the producing category. Currently, $2 million is available on the acquisition line of credit. At year end, the acquisition line was undrawn, however, during 2000, BelAir utilized it to fund various well re-completions and pipeline tie-ins, primarily to bring into production shut in or capped natural gas reserves. Ultimately, the proven non-producing reserves brought on stream by these projects were included in the increase in proven producing reserves in 2000. In 2001, BelAir intends to spend $23 million in capital expenditures funded largely from its cash flow. With the continuation of strong commodity prices and the expectation of increasing production in 2001, BelAir expects to reduce its bank debt below its current level.

In 2000, as a precaution against higher future interest rates, BelAir fixed the interest cost of its core debt by issuing a $3 million bankers acceptance for a term of one year to January 2001. In February, 2000, bank prime rates increased 25 basis points, making the effective cost of prime based borrowings higher than the rate at which BelAir locked in. In May 2000, following the acquisition of CrownJoule Exploration Ltd. and the assumption of its bank debt of $9 million, BelAir issued $7 million in bankers acceptances for a term of one year, thereby fixing the cost of debt prior to two successive increases in prime interest rates that increased from 6.75% to 7.50%.

BelAir expects prime interest rates to fall in 2001 towards a bank prime rate of less than 7.0% by the end of 2001. As the longer term bankers acceptances mature in 2001, BelAir will issue bankers acceptances with short maturities to take advantage of lower short term interest rates.

Cash Costs

A continuing challenge is to reduce our cash costs – that is, the total of operating, G&A and interest costs. In 1999, the sum of those costs was $11.31 per boe. The individual components were: operating costs of $9.03 per boe, G&A costs of $3.26 per boe and interest costs of $2.18 per boe.

Natural gas processing charges are the main component of BelAir's operating costs. We do not own facilities in most of the areas where we produce natural gas. To process our natural gas, we rely on accessing third party plant facilities that charge rates that increase our operating costs. An alternative to reduce processing costs would be to construct our own facilities, although that is not always possible under Alberta's plant anti-proliferation policy. Another alternative would be to purchase processing capacity in existing plants. It is our assessment, however, that we obtain a better return on capital by exploring for and developing reserves than by investing the capital in processing facilities. Our expertise is exploring and producing – not processing. We will focus on the reduction of certain operating costs during 2001.

The major portion of our G&A costs is employee expense. In 2000, we staffed up to proceed with our capital program. This capital program was more than triple the capital program of the previous year and, in 2001, we will double the amount of capital expenditure spent in 2000. At the same time, we do not expect to increase our staff complement appreciably.

Interest costs were higher than we had targeted because we assumed more debt in order to acquire CrownJoule Exploration. The combination of increased production over the year, high commodity prices and an equity issue contributed to reduce our net debt from a high of $16.6 million to $11.0 million by year end. With the expected cash flow and production rates for the year 2001, we expect to reduce our debt even further in 2001.

Depletion, Depreciation and Site Restoration

Depletion and depreciation costs were $4.0 million in 2000 or $8.62 per boe compared $2.1 million for 1999 or $6.02 per boe. The increase in the rate is attributable to the acquisition of CrownJoule Exploration Ltd. Future site restoration (non-cash) costs were $169,271 in 2000 similar to costs of $170,565 in 1999.

Income Taxes

BelAir had no current income taxes payable in 2000 nor does it expect to be taxable on an income basis in 2001. Tax pools at the end of 2000 totaled approximately $26.0 million. In 2000, BelAir changed the method of accounting for its income taxes from the deferral method to the liability method without restating prior periods. Under this method, the difference between tax assets and liabilities and their financial reporting basis is computed and measured using current tax rates. Consequently, BelAir now reports its future income tax liability. Prior to the adoption of this method, BelAir followed the deferral method of tax allocation accounting under which the provision for corporate income taxes was based on the reported earnings taking into consideration the tax effects of timing differences between financial statement income or taxable income.

Net Earnings

Net earnings for the year ended December 31, 2000 were $4.7 million or $0.44 per weighted average share compared to $1.0 million or $0.17 per weighted average share outstanding. A ceiling test calculation at the end of 2000 determined that estimates of future net revenues exceeds the net book value of all of BelAir's properties to the extent that a significant ceiling test cushion was in place at December 31, 2000.

Earnings Ratios

	2000	*1999*	*1998*
Net Income (in millions of dollars)	4.7	1.0	(3.2)
Return on Capital$_{(1)}$	22%	9%	(31%)
Return on Net Investment$_{(2)}$	19%	9%	(30%)
Return on Shareholders Equity$_{(3)}$	25%	10%	(41%)

1. Net income plus after-tax financing charges on debt divided by average of opening and closing capital employed. Capital employed is a total of equity and long term debt.
2. Net income plus after-tax financing charges on long term debt divided by average net investment. Net investment is total assets less current liabilities.
3. Net income are divided by average shareholders' equity.

Cash Flow

Cash flow in 2000 was $12.3 million or 3.8 times greater than the $3.2 million reported in 1999. BelAir benefited from a 32% increase in average daily production from 961 boepd in 1999 to 1,266 boepd in 2000 and an increase in average oil and natural gas prices. BelAir received an average price per boe of $50.95 in 2000 that was almost double the average price per boe of $25.58 in 1999. On a weighted average share outstanding basis, cash flow was $1.13 per share compared to $0.53 per share in 1999, an increase of 113%.

Capital Expenditures

BelAir's capital expenditures in 2000, including amounts allocated to capital as a result of the takeover of CrownJoule Exploration and net of dispositions, were 733% higher than in 1999. Capital expenditures in 2000 were $33.6 million compared to $4.0 million in 1999. In 2000, BelAir implemented an increased capital program geared to a greater exploration drilling effort. In 2000, BelAir drilled 23 gross (10.7 net) wells compared to a total of 14 gross (7.8 net) wells drilled in all of the previous years of BelAir.

Liquidity and Capital Resources

Cash flow was $12.3 million and BelAir's net debt was $11.0 million at year end resulting in a ratio of net debt to cash flow of 0.9:1, well below BelAir's internally imposed limit of debt to forward cash flow of 1.5:1. BelAir has a $19.0 million credit facility with the National Bank of Canada.

In December 1999, BelAir issued 1.5 million shares at $3.00 per share in a flow-through share financing to raise $4.5 million ($4.1 million after costs). Proceeds of the financing were used to fund oil and gas development activities in the remainder of 2000 and will fund future exploration and development activities in 2001.

In 2000, BelAir renounced $4.5 million in Canadian exploration expense to flow through shareholders.

2001 Capital Budget

BelAir has an approved capital budget of $23.0 million. The Board of Directors has oversight responsibilities for the budget and will amend capital spending if required. The capital budget has been established utilizing commodity price forecasts of an average price for natural gas of $6.90 per mcf and US$24.50 per barrel of oil.

Risk Assessment

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common in all businesses while others are specific to the sector. The following reviews the general and specific risks and includes BelAir's approach to managing these risks.

The oil and gas industry is subject to uncertainties and risks related to commodity prices, product market demand, operations, exploration success, transportation interruptions, foreign exchange and interest rates, government regulation and taxes and environmental and safety concerns.

BelAir's management recognizes that although these risks may not be controlled, they can be monitored and mitigated.

The recognition of these risks and the knowledge of the ways to mitigate these risks are related directly to experience of the management team. Each member of the BelAir executive management team has more than 20 years of direct experience in the oil and natural gas industry.

BelAir employs highly qualified and experienced professionals, maintains a strong and flexible financial position, is proactive in implementing environmental and safety operating procedures and continues to pursue low cost reserve additions and cash flow optimization to sustain future growth.

Finding Reserves

Oil and natural gas exploration requires manpower and capital to generate and test exploration concepts. The eventual testing of a concept may not necessarily result in the discovery of economic reserves. BelAir minimizes finding risk by ensuring that the majority of prospects have multi-zone potential in areas where BelAir's expertise and experience is the greatest. BelAir utilizes geological and geophysical techniques to enhance the potential for success in finding reserve accumulations.

Exploration and acquisition risks are managed by employing seasoned technical professionals and exploring for or acquiring reserves in the areas where we have expertise and experience. Extensive geological, geophysical, engineering, environmental and financial analyses are performed prior to drilling or acquiring new prospects. BelAir mitigates certain of these risks by operating in geographical areas characterized by low finding and development costs. BelAir is concentrating its exploration and acquisition program to central and north central Alberta and will continue to divest in areas that are not consistent with BelAir's technical expertise.

BelAir's prospect selection process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth through development activity and future cash flow from the discovery of reserves through exploration. BelAir keeps a broad range of prospects in its inventory of potential drilling choices as well as investing a portion of its annual budget in undeveloped land for future years.

Reserve Estimates

Reserve values are estimates of economically recoverable oil and natural gas reserve and the future net cash flows from the reserves. Estimates of reserve value are based on upon a number of variable factors and assumptions such as commodity prices, projected production, government regulation and future operating costs. All of these estimates may vary from actual results. Estimates may vary in respect of recoverable oil and natural gas reserves attributable to any set of properties and the classifications of such reserves based on the risk of recovery and estimates of future net revenues BelAir's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates and could be material.

Commodity Price Risk

Commodity price fluctuations can be offset by maintaining a balanced portfolio of oil and gas reserves and production. BelAir can protect itself from the negative effects of the volatility of commodity prices by the use of market instruments that can insure future prices. In 2000, BelAir has insured itself against the downside risk of low commodity prices. BelAir entered into minimum price contracts establishing a "floor" to ensure a minimum price of US$18 WTI for 500 bpd of oil until December 31, 2000 and $2.40 per GJ for 4,000 GJ per day (approximately equivalent to 3.8 Mmcfpd) of natural gas until November 1, 2000. The cost of this "insurance" was US$0.48 per barrel and $0.0375 per GJ. BelAir will continue to implement market instruments to protect against downside risk in commodity prices. BelAir does not have any hedges in place that will limit the upside potential in oil or gas pricing.

Financial and Liquidity Risks

The sensible use of bank financing as an integral part of BelAir's capital structure. BelAir limits the amount of debt it will bring into the capital structure to its ability to generate cash flow. BelAir limits the amount of net debt it will carry to 1.5 times forward cash flow. The risk of an increase in the cost of debt financing can be mitigated by the use of financial instruments that fix interest rates at current levels when interest rates are expected to rise. In 2000, BelAir fixed the rate on $10.0 million of its debt for one year in anticipation of interest rate hikes. There were three bank prime interest rates advances in 2000 representing a total increase of 100 basis points (1%).

BelAir relies on various sources of funding to support its growing capital expenditure program. Internally generated cash flow provides the minimum level of funding on which BelAir's annual capital program is based. Debt may be utilized to expand capital program when deemed appropriate. New equity, if available and if on favorable terms, will be utilized to expand exploration programs. If cash flow is affected detrimentally by factors that BelAir cannot control such as commodity prices, exchange rates, interest rates and change in government regulation and tax policies, BelAir would respond by reducing capital expenditures to keep its debt within the self imposed limits.

The objective of BelAir's risk management policy is to secure its capital program and cover debt payments by ensuring that budgeted cash flow levels are attained through the minimization of exposure to commodity price, foreign exchange and interest rate volatility.

Market Risk

BelAir is exposed to marketing risk to the extent the demand for oil and natural gas produced by BelAir exists within Canada and the United States, however, oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. BelAir mitigates these risks by connecting its natural gas production to mature pipeline infrastructure that operates with minimal interruptions. Historically, BelAir's oil production has been of higher quality light sweet crude and not subject to adverse quality differentials. BelAir's exploration activity targets natural gas near existing infrastructure and high quality oil. Exploration efforts are concentrated in core areas where our marketing expertise is highest.

Operational Risk

Operational risk is managed where possible by becoming the operator of jointly operated properties as a means maintaining control over the timing of capital expenditures, operational decisions and costs. BelAir intends to continue to increase its interests in identified key properties while divesting itself of low interest properties where operatorship would not be available and the properties do not fit into BelAir's focus areas. In 2000, BelAir increased the number of properties it operated. Of the top 10 producing properties in 2000, BelAir operated 9 of these properties compared to 7 in 1999. Going forward, BelAir will operate its exploration program by maintaining an average of 50% working interest in its projects.

Environmental and Safety Risks

To manage environmental risks, BelAir complies with all environmental regulations under the various jurisdictions that administer environmental policy in the areas that BelAir carries out field operations. Environmental reviews are completed as part of BelAir's due diligence when property acquisitions are contemplated. Currently, BelAir has implemented a program to review all of its producing properties within three years to assess the environmental impact of our operations. BelAir has implemented a safety and environmental policy that is designed, at a minimum, to comply with current governmental regulations for the oil and gas industry. Employees and field contractors follow BelAir's environmental and safety manual and the policies set out by occupational health and safety regulations.

BelAir is committed to minimizing the effects of our activities on the environment and protecting our employees and contractors. BelAir continually monitors government standards to ensure compliance with any changes to these policies and regulations. BelAir has a formal Emergency Response Plan (ERP) detailing procedures that employees and contractors must follow in the event of an operational emergency.

An Environmental and Safety Committee consisting of officers and directors of BelAir reports to the Board of Directors on a regular basis.

Finally, BelAir carries adequate insurance to cover identifiable risks and potential liabilities related to field and office activity as well as coverage for personnel and directors executing their corporate duties. BelAir maintains comprehensive insurance to cover risks of well blow-out and pollution.

Corporate Governance

The Board of Directors of BelAir believes that good corporate governance improves corporate performance and benefits all shareholders. In August 2000, BelAir was listed for trading on the TSE and the TSE has set out a series of guidelines for effective corporate governance. These guidelines deal with such matters as the constitution and independence of corporate boards, their functions, the effectiveness and education of board members and other items dealing with corporate governance. The TSE requires that each listed company disclose on an annual basis its approach to corporate governance with reference to these guidelines.

Responsibilities of the Board of Directors

BelAir's Board of Directors is responsible for establishing BelAir's strategic direction and operating philosophy and then monitoring management's conduct and performance. The mandate of the Board of Directors is to supervise the management of the business and affairs of BelAir. In fulfilling its mandate, the Board oversees the development, adoption and implementation of BelAir's strategies and plans. The Board's responsibilities include:

a. The strategic planning process;
b. The management development and succession initiatives;
c. The effectiveness of the internal control and management information systems;
d. Understanding the risks associated with the business and developing systems to manage such risks;
e. Policies for communicating with the shareholders and others; and
f. The general review of BelAir's results of operations, including the evaluation of the general and specific performance of management.

The Board of Directors is responsible for the stewardship of BelAir and considers good corporate governance to be central to BelAir's effective and efficient operation. The Board is responsible for effective communications between BelAir, its stakeholders, regulatory agencies and the public. It is responsible for the annual planning process which includes strategies prepared by senior management and the assessment of principal risks. In order to assist in fulfilling this mandate, the Board is provided with an operational review of BelAir by management on a regular basis throughout the year. In conjunction with these operational reviews, the Board discusses various strategic planning matters and identifies business and other risks associated with the activities of BelAir, as it considers appropriate.

The Board convenes at least quarterly including periodic meetings with senior management of BelAir. Additional meetings of the Board may be held if the need arises.

In light of the size of the Board of Directors, the Board as a whole is responsible for issues relating to corporate governance.

The Board expects management to be responsible for the management of BelAir's day to day operations, subject to the Board's stewardship. Management is also expected to fully inform the Board on the business and affairs of BelAir, to develop and maintain an effective organization and to ensure management succession. The Board expects management to develop and maintain a system of internal controls designed to safeguard assets from loss or unauthorized use and to ensur the accuracy of the financial records.

The Board considers certain decisions are sufficiently important that management should seek prior approval of the Board, such decisions are:

a. The approval of the annual capital and operating budget and any material changes to this budget;
b. The acquisition or sale of significant oil and natural gas properties including significant commitments with industry partners;
c. Significant debt financing;
d. Changes in management;
e. All matters as required under the Business Corporations Act (Alberta); and
f. Significant changes in corporate policies, goals or objectives.

Compostion of the Board

BelAir intends to maintain its policy of having a Board comprised of a majority of independent and unrelated directors. BelAir's Board of Directors is comprised of seven members of whom five are independent and two are members of BelAir's senior management. This ratio ensures independence of the Board.

Directors consider and approve annual operating and capital budgets within which the management is expected to operate. Any material deviations from these parameters require Board approval. BelAir has established Audit, Compensation and Environmental and Safety Committees, each of which is comprised of three, three and two Board members respectively.

The Audit Committee is comprised of three members independent of management, David Banks, Owen Pinnell and Murray Sears.

The Audit Committee's duties include the overview responsibility for financial statements and related disclosures, reports to shareholders and other related communications, establishment of appropriate financial policies, the integrity of accounting systems and internal controls and consultation with the auditors independent of management. The Audit Committee is responsible for the overview of BelAir's reserves report and the consultation with the engineering consultants that prepare the reserves evaluation report independent of management.

The Compensation Committee is comprised of three directors, David Banks, Victor Luhowy and Owen Pinnell, and is responsible for the review and recommendation to the Board of Directors of the compensation for all senior management. Duties include overview responsibilities for human resource planning, compensation of senior officers, short and long term incentive programs, and other benefit plans, and senior officer appointments.

The Environmental and Safety Committee is comprised of two directors, Victor Luhowy and Mark Widney. The Committee is responsible for reporting to the Board all matters relating to environmental and safety issues.

Under the rules of The Toronto Stock Exchange (TSE), BelAir is required to disclose information relating to its corporate governance system with specific reference to each of the TSE's fourteen guidelines for effective corporate governance. Where BelAir's corporate governance system is different from any of the guidelines or where the guidelines do not apply to BelAir's corporate governance system, BelAir is required to explain the differences or the inapplicability of the guidelines to BelAir.

The alignment of BelAir's corporate governance practices with the fourteen guidelines recommended by the TSE is discussed following. The disclosure has been approved by the Board of Directors.

BelAir's Alignment with Corporate Governance Guidelines

Corporate Governance Guideline	Does BelAir Align?	Comments
1) The board of directors of every corporation should explicitly assume responsibility for the stewardship and specifically for:		
a) Adoption of a strategic planning process	Yes	Management is responsible for the development of overall corporate strategies. These strategies are reviewed and approved annually by the Board.
b) Identification of principal risks and ensuring implementation of appropriate risk managing systems.	Yes	The Board reviews the principal risks of BelAir on an ongoing basis and management's recommendations for managing such risks. The Board's participation in the strategic planning process and the approval of the capital and operating budget involves the identification and consideration of the principal risks of BelAir's business. Specific risk and risk management are addressed by the Audit Committee.
c) Succession planning including appointment, training and monitoring senior management.	Yes	The Compensation Committee is responsible for reviewing the performance and compensation of senior management of BelAir and for making recommendations to the Board on such matters as management organization, training programs and succession plans.
d) Communications policy	Yes	The Board's mandate includes ensuring that systems are in place for open, accurate and timely communication with its shareholders, regulatory agencies and other stakeholders. This communication includes annual reports, quarterly reports, press releases, annual information forms, maintaining a website and group meetings.
2) Majority of directors should be unrelated (independent from management and free from conflicting interest)	Yes	Two of the seven members of the Board are considered to be related. The Board has adopted a policy that the majority of the directors should be independent and unrelated.

3)	Disclose which directors are related.	Yes	Victor M. Luhowy and Ken D. MacRitchie are members of the Board and also senior officers of BelAir.
4)	Appoint a committee responsible for appointment/assessment of directors composed of non-management directors the majority of whom are unrelated.	No	The members of the Board and management present candidates for the approval of the Board as a whole.
5)	Implement a process for assessing the effectiveness of the board, its committees and the contribution of individual directors.	Yes	The Board is carefully chosen based on the experience and reputation of its candidates. Board members are assessed on similar standards of conduct and performance used in evaluating employees of BelAir.
6)	Provide orientation and education programs for new directors.	Yes	All directors receive an orientation prior to assuming their board duties, however there are no formal orientation or education programs presently available for new directors.
7)	Review the size of the board and its effectiveness in making decisions.	Yes	The Board consists of seven members, a size that requires the full participation of all board members in committees and in the decision making process. Given the size of BelAir, the current size and representation of the Board is large enough to permit a diversity of views and to effectively carry out the governance duties and responsibilities of the Board.
8)	Review the compensation of directors and whether it reflects the risks and responsibilities of an effective director.	Yes	The mandate of the Compensation Committee includes the review and recommendation to the Board of directors' remuneration. In 2000, directors received no remuneration. Commencing May 2001, directors will receive remuneration based on time commitment to Board and Committee meetings.
9)	Committees should generally be composed of non-management directors. The majority of committee members should be unrelated.	Yes	All of the Board committees are comprised of a majority of non-management and unrelated directors with the exception of the Environmental and Safety Committee to which the President has been appointed together with an unrelated director. The Audit Committee is composed entirely of non-management and non-related directors

10) Appoint a committee responsible for the response and approach to corporate governance issues.	Yes	Given the size of BelAir and of the Board, the Board as a whole considers issues of corporate governance where those issues are not specifically assigned to committee.
11)		
a) Define the limits of management's responsibilities by developing mandates for the board and the CEO.	Yes	The Board of Directors has plenary power to manage and supervise the management of the business and affairs of BelAir. The Board established and approved the duties and responsibilities that have been delegated to senior management. Management operates within the parameters established annually by the operating and capital budget.
b) The board should approve the CEO's corporate objectives.	Yes	The Board approves the CEO's objectives on an annual basis.
12)		
a) Adopt structures and procedures to ensure that the board can function independently of management.	Yes	The Board and its committees meet independently of management when warranted. The Board expects management to be responsible for the day to day operations of BelAir's business. This includes an ongoing review of BelAir's strategies and their implementation in light of changing business market and competitive conditions; complete and accurate reporting to shareholders; comprehensive annual budgeting process and monitoring financial performance against the budget; and the timely response to any legal actions or changes in any government regulations concerning BelAir's activities.
b) Appoint a chairman who is independent of management or assign responsibility to a "Lead Director".	Yes	The chairman of the Board, Owen C. Pinnell, is independent of management.

13)		
a) Establish an audit committee with a specially defined mandate.	Yes	The Audit Committee's mandate includes overall responsibility for financial statements and related disclosure, reports to shareholders and other related communications, meeting with the outside auditors and reserves evaluation engineers independently of management and the establishment of appropriate financial controls and policies to ensure the integrity of the accounting systems. These matters include ongoing reviews with BelAir's auditors including the scope of the audit and quarterly reviews and the role and fees of external auditors. The Audit Committee is also responsible for reviewing the process and integrity of the annual oil and natural gas reserve evaluation reports prepared by an independent engineering firm.
b) Members of the audit committee should be non-management and unrelated directors.	Yes	All the members of the Audit Committee are non-management and unrelated directors, independent of management.
14) Implement a system to enable individual directors to engage outside advisers at the Corporation's expense.	No	No formal system has been adopted that allows a director to engage an outside advisor at the expense of BelAir. In the event that there are matters related to any or Board action in respect of which the director wishes to receive independent advice, the Board will facilitate such a request.

Management's Report

The accompanying financial statements of BelAir Energy Corporation and all information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with the accounting principles generally accepted in Canada and within the framework of the Company's significant accounting policies as described in the notes to the financial statements. The Company's internal controls have been designed and maintained by management to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and that the financial information is accurate and reliable. The financial statements reflect management's best estimates and judgements based on currently available information within reasonable limits of materiality.

Financial information presented throughout the Annual Report has been prepared and reviewed by management to ensure it is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and is comprised of independent directors that are not employees of the company. The Audit Committee meets regularly with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities and to review the financial statements and the external auditor's report. The Audit Committee has reviewed the financial statements, including the notes thereto with KPMG LLP and management. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of external auditors.

KPMG LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders, to audit the financial statements in accordance with generally accepted accounting standards in Canada and provide an independent professional opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly. KPMG LLP have full and free access to the Audit Committee.

The financial statements, including the notes, have been approved by the Board of Directors on the recommendation of the Audit Committee.

Victor Luhowy

Victor M. Luhowy
President and CEO

Kenneth D. MacRitchie
Vice President, Finance and CFO

Calgary, Canada
February 9, 2001

Auditors' Report to the shareholders

We have audited the balance sheets of BelAir Energy Corporation as at December 31, 2000 and 1999 and the statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

February 9, 2001

Balance Sheets

December 31, 2000 and 1999

	2000	1999
Assets		
Current assets:		
Accounts receivable	$ 8,575,633	$ 3,117,011
Prepaid expenses	573,771	456,371
Notes receivable (note 3)	–	18,905
	9,149,404	3,592,287
Capital assets (note 4)	46,154,923	15,720,379
	$ 55,304,327	$ 19,312,666
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 9,666,810	$ 3,478,564
Bank loan (note 5)	10,477,438	3,753,860
Provision for future site restoration	707,105	426,986
Future income taxes	8,270,127	–
Shareholders' equity (note 6):		
Share capital	24,248,182	13,838,843
Retained earnings (deficit)	1,934,665	(2,185,587)
	26,182,847	11,653,256
Commitments (note 8)		
Subsequent event (note 10)		
	$ 55,304,327	$ 19,312,666

See accompanying notes to financial statements.

On behalf of the Board:

Victor Luhowy

Victor M. Luhowy, Director

Owen Pinnell, Director

Statements of Operations and Retained Earnings (Deficit)

Years ended December 31, 2000 and 1999

	2000	1999
Revenue:		
Petroleum and natural gas sales	$ 23,609,541	$ 8,970,416
Royalties	(4,704,502)	(1,945,357)
Other	264,497	233,309
	19,169,536	7,258,368
Expenses:		
Operating	4,184,457	2,399,530
General and administration	1,509,036	1,241,882
Interest on long-term debt	1,008,272	324,467
Provision for site restoration	169,271	170,565
Depletion, depreciation and amortization	3,994,641	2,109,461
	10,865,677	6,245,905
Net income before income taxes	8,303,859	1,012,463
Income taxes (note 7):		
Current	181,670	–
Future	3,386,132	–
	3,567,802	–
Net income	4,736,057	1,012,463
Deficit, beginning of year	(2,185,587)	(3,198,050)
Adjustment for share redemption	147,234	–
Adjustment for change in accounting for income taxes (note 7)	(763,039)	–
Retained earnings (deficit), end of year	$ 1,934,665	$ (2,185,587)
Per share amounts:		
Basic	$ 0.44	$ 0.17
Fully diluted	$ 0.40	$ 0.15

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended December 31, 2000 and 1999

	2000	1999
Cash provided by (used in):		
Operations:		
Net income	$ 4,736,057	$ 1,012,463
Items not involving cash:		
Depletion, depreciation and amortization	3,994,641	2,109,461
Provision for site restoration	169,271	170,565
Future income taxes	3,386,132	–
Non-cash gain on settlement of debenture	–	(100,000)
Funds from operations	12,286,101	3,192,489
Change in non-cash operating working capital	(369,778)	(826,878)
	11,916,323	2,365,611
Financing:		
Issue of share capital	4,105,906	2,075,583
Share issue costs	(527,398)	(345,718)
Bank loan	(2,416,185)	84,824
Debenture payable	–	(75,000)
Note receivable	18,905	17,986
	1,181,228	1,757,675
Investments:		
Business acquisition (note 2)	(1,432,008)	–
Exploration and development	(16,179,894)	(4,489,675)
Proceeds on sale of petroleum and natural gas properties	4,566,819	461,163
Site restoration expenditures	(52,468)	(94,774)
	(13,097,551)	(4,123,286)
Change in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended December 31, 2000 and 1999

1. Significant accounting policies:

(a) Capital assets:

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized. Such costs include land acquisition costs, cost of drilling both productive and non-productive wells, and geological and geophysical expenses and related overhead.

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content.

The Corporation applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at year end prices and include an allowance for estimated future general and administrative expenses, interest expense, income taxes, and capital expenditures.

Gains or losses on the disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a change in the depletion rate of 20% or more.

Depreciation of furniture and office equipment is provided using the straight-line method based upon estimated useful lives at rates of 10% to 35%.

(b) Interest in joint ventures:

Substantially all of the Corporation's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(c) Future site restoration and abandonment costs:

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Corporation's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

(d) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(e) Per share amounts:

Per share amounts are calculated using the weighted average number of shares outstanding during the year. Fully diluted per share calculations, using the imputed earnings method, reflect the exercise of options and warrants at the later of the date of issuance or the beginning of the year. Anti-dilutive options and warrants are not included in the calculation.

(f) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions when the shares are issued.

1. Significant accounting policies (continued)

(g) Income taxes:

The Corporation adopted the liability method of tax allocation accounting, without restatement of prior years, effective January 1, 2000. Under the liability method, the difference between tax assets and liabilities and their financial reporting basis is computed and measured using the current tax rates. Prior to the adoption of the new recommendations, the Corporation followed the deferral method of tax allocation accounting under which the provision for corporate income taxes was based on the reported earnings taking into consideration the tax effects of timing differences between financial statement income or taxable income.

2. Business acquisition:

Effective May 1, 2000, the Corporation acquired all of the issued and outstanding Common Shares of Crownjoule Exploration Ltd. The acquisition was accounted for using the purchase method with the results of operations being included from the date of acquisition.

Allocated:	
Capital assets	$ 21,955,929
Working capital deficiency	(982,003)
Provision for site restoration	(163,317)
Long-term debt	(9,139,763)
Future income tax liability	(1,385,763)
	$ 10,285,083

Cost of acquisition:	
Share capital issued	$ 8,853,075
Cash consideration paid	1,432,008
	$ 10,285,083

3. Notes receivable.

The notes receivable are due from officers and directors of the Corporation. Interest on the notes was calculated at 5% per annum. The notes were repaid by December 31, 2000.

4. Capital assets:

2000	*Cost*	*Accumulated depletion, depreciation and amortization*	*Net book value*
Petroleum and natural gas properties and equipment	$ 55,684,157	$ 9,883,723	$ 45,800,434
Furniture and office equipment	536,003	181,514	354,489
	$ 56,220,160	$ 10,065,237	$ 46,154,923

1999			
Petroleum and natural gas properties and equipment	$ 21,470,285	$ 5,951,932	$ 15,518,353
Furniture and office equipment	320,690	118,664	202,026
	$ 21,790,975	$ 6,070,596	$ 15,720,379

The net recoverable amount calculated under the full cost accounting guideline exceeded the net book value of petroleum and natural gas properties at December 31, 2000.

The costs of unproven lands at December 31, 2000 of $6,311,253 (1999 - $3,187,000) have been excluded from the depletion calculation.

As at December 31, 2000, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are $2,431,855 (1999 - $2,100,000) of which $169,271 (1999 - $170,565) is included in depletion and depreciation in the current year.

5. Bank loans:

The Corporation has available the following credit facilities with a chartered bank:

	2000	*1999*
Revolving demand loan to a maximum of $15,000,000, bearing an interest rate of bank prime rate plus ¼ %	$ 10,477,438	$ 3,753,860
Non-revolving demand acquisition loan to assist in financing oil and gas property acquisitions to a maximum of $2,000,000, bearing interest at prime plus 1%	–	–
Treasury/swap risk line, for the purchase of various interest rate, foreign exchange and energy commodity swaps and forwards to a maximum amount of $2,500,000 and a maximum term of 48 months to be settled by the terms of the contract	–	–
	$ 10,477,438	$ 3,753,860

The loans are secured by a general assignment of book debts and a $30,000,000 first floating charge debenture on all assets. The Corporation is required to meet certain financial and engineering reporting requirements. The loans are subject to an annual review. The next annual review will be undertaken before May 31, 2001. Although the loans are of a demand nature, the lender has advised the Corporation that it does not intend to demand repayment of the loans within the next fiscal year and therefore the loans have been classified as long-term.

6. Capital stock:

(a) Authorized:

Unlimited number of voting Common Shares

Unlimited number of non-voting First Preferred Shares, issuable in series

(b) Common Shares issued:

	Number of Shares	*Amount*
Balance, December 31, 1998	5,872,145	$ 12,554,978
Flow-through shares issued	1,250,000	2,125,000
Issued on private placement	37,514	60,000
Shares repurchased and cancelled	(71,000)	(109,417)
Tax effect of flow-through shares	–	(446,000)
Share issuance costs	–	(345,718)
Balance, December 31, 1999	7,088,659	$ 13,838,843
Flow-through share issued	1,500,000	4,500,000
Crown Joule acquisition	6,014,434	8,853,075
Exercise of options	15,625	28,650
Adjustment for change in income taxes (note 7)	–	(124,568)
Shares repurchased and cancelled	(282,968)	(569,978)
Tax effect of flow-through shares	–	(1,980,000)
Share issue costs	–	(527,398)
Tax effect of share issue costs	–	229,558
Balance, December 31, 2000	14,335,750	$ 24,248,182

(c) Flow-through shares and warrants:

The Corporation issued 734,000 units for proceeds of $4,404,000. Each unit consisted of two flow-through shares and one warrant. The 734,000 warrants are exercisable at a price of $3.00 and expire on December 22, 2001. 16,000 units consisting of 2 flow-through shares and 1 option were also issued. The options are exercisable at a price of $3.00 and expire on December 22, 2001. The future tax adjustment of the flow-through shares of $1,980,000 has been recorded to future tax liability.

6. Capital stock (continued)

(d) Stock option plan:

The Corporation has a fixed stock option plan in which the Corporation may grant options to its employees for up to 1,288,319 shares of common stock. Under this plan, the exercise price of each option equals the market price of the Corporation's stock on the date of grant and an option's maximum term is ten years. Options are granted periodically throughout the year. The Corporation's directors and officers' options' vest immediately and employees' vest one third a year for three years.

Changes in the number of options, including brokers options, with their weighted average exercise price are summarized below:

	2000		*1999*	
	Number of options	*Weighted average exercise price*	*Number of options*	*Weighted average exercise price*
Stock options outstanding, beginning of year	635,250	$ 2.10	415,250	$ 2.29
Granted	686,500	1.79	232,500	1.62
Exercised	(15,625)	1.83	–	–
Cancelled	(28,875)	2.11	(12,500)	1.60
Stock options outstanding, end of year	1,277,250	$ 1.90	635,250	$ 2.10
Exercisable at year end	1,162,680	$ 1.91	615,667	$ 2.05

At December 31, 2000, the 1,277,250 shares outstanding have a weighted average remaining contractual life of 7.96 years.

(e) Broker options:

In 1999, with the 1,250,000 flow-through shares issued, the Corporation has issued 125,000 broker options. The options may be exercised at $1.70 per share expiring on June 3, 2001.

(f) Shares in escrow:

Of the Common Shares issued to date, 114,570 shares are held in escrow and may not be released from escrow and traded without the written consent of the appropriate regulatory authorities.

7. Income taxes:

(a) Change of accounting policy:

During the year, the Corporation changed its method of accounting for income taxes from the deferral method to the liability method as described in note 1, and has applied this change retroactively without restating prior periods. At January 1, 2000, the future income tax liability was increased by $1,747,790, oil and gas properties were increased by $860,183, share capital was decreased by $124,568 and retained earnings was decreased by $763,039. These adjustments resulted from recognizing the future tax costs of acquisitions where the tax basis was less than their cost and the future tax costs of renouncing deductions to flow-through share subscribers.

(b) Income tax provision:

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Corporation's earnings before income taxes. This difference results from the following items:

	2000	*1999*
Earnings before income taxes	$ 8,303,859	$ 1,012,463
Combined federal and provincial tax rate	44.6%	44.6%
Computed "expected" income tax expense	$ 3,703,521	$ 451,761
Increase (decrease) in income taxes resulting from:		
Non-deductible crown charges	1,674,253	455,341
Non-deductible depletion and other expenses	–	287,110
Resource allowance	(1,817,682)	(492,636)
Alberta Royalty Tax Credit	(187,631)	–
Non-deductible meals and entertainment	13,671	3,887
Benefit of losses not recognized	–	(705,463)
Future income taxes	3,386,132	–
Capital taxes	181,670	–
Income taxes	$ 3,567,802	$ –

Bel Air

7. Income taxes (continued)

The components of the Corporation's future income tax liability at December 31, 2000 are as follows:

Future income tax assets:		
Future site restoration	$	236,527
Share issue expenses		808,255
Other		11,118
		1,055,900
Future income tax liabilities:		
Capital assets		9,326,027
Net future income tax liability	$	8,270,127

As at December 31, 2000, the Corporation has a commitment to renounce $4,500,000 (1999 - $1,722,500) of income tax attributes associated with oil and gas exploratory and development activities.

8. Commitments:

The minimum rentals payable under long-term office leases and office equipment, exclusive of certain operating costs, for which the Corporation is responsible are as follows:

2001	$	109,216
2002		118,773
2003		136,055
2004		155,478
2005		157,380
	$	676,902

9. Financial instruments:

(a) Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

(b) Credit risk:

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal indutry credit risks. Purchasers of the Corporation's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(c) Fair value of financial instruments:

The carrying amounts of financial instruments included on the balance sheet, other than long-term debt, approximate their fair value due to their short-term maturity. The long-term debt have carrying values that approximate fair value due to the cost of borrowing floating at December 31, 2000 and 1999.

10. Subsequent event:

Subsequent to year end, the Corporation issued 16,000 stock options at an exercise price of $3.00 per share, expiring in December, 2001, and 15,000 stock options at an exercise price of $2.35 per share, expiring in January 2010. On February 1, 2001, 50,000 brokers options were exercised at an exercise price of $1.70.

Directors of BelAir Energy Corporation

C. DAVID BANKS is President of Resource Professionals Inc., a technical and professional staffing service primarily involved in the oil and gas industry and President and Principal of RP Consulting Inc., an engineering and geological consulting service. Mr. Banks has been active in the Canadian and US oil and gas industry since 1961. Mr. Banks was President of Westar Petroleum Limited; Executive Vice President of United Canso Oil & Gas Ltd; Vice President Engineering and Operations with Golden Eagle Oil & Gas Ltd. Mr. Banks is a Professional Engineer registered in the Province of Alberta. He graduated from the University of Manitoba with a Bachelor of Science in Mechanical Engineering.

VICTOR M LUHOWY has over thirty years of experience in the oil and natural gas industry in western Canada. Mr. Luhowy has been President and Chief Executive Officer of BelAir since its inception in 1997. Prior to 1997, he was Senior Vice President and Chief Operating Officer of ELAN Energy Inc., a publicly traded oil and natural gas company. Prior to joining ELAN in 1990, Mr. Luhowy held executive positions with intermediate oil and natural gas producers based in western Canada. Mr. Luhowy is currently a director of Blackrock Ventures Inc., a publicly traded oil company. Mr. Luhowy is a Professional Engineer of Alberta and has a Bachelor of Science in Mechanical Engineering from the University of Alberta and received a Master of Business Administration degree from the University of Calgary.

KENNETH D. MACRITCHIE has twenty-one years of experience in the oil and natural gas industry primarily in oil and gas financing. Mr. MacRitchie has been Vice President, Finance and Chief Financial Officer of BelAir since its inception in 1997. Prior to 1997, he was an executive officer for two years with Equis Energy Corporation, a junior oil and natural gas company listed on the TSE and ASE. Prior to this, Mr MacRitchie had fourteen years of experience with three banks that specialized in oil and gas financing in western Canada. Mr. MacRitchie holds a Bachelor of Arts, Honours degree from York University and a Master of Business Administration degree from Dalhousie University.

OWEN PINNELL, Managing Partner of I 3 Capital Partners Inc., is an executive with more than fifteen years experience as president, CEO and director of various public and private companies in Canada and the USA. Mr. Pinnell is a mechanical engineer by profession, receiving his engineering education at the Auckland Technical Institute in New Zealand. Mr. Pinnell is a registered professional engineer in Alberta and British Columbia and also holds a Certificate in Business Strategy from the Massachusetts Institute of Technology. Mr. Pinnell has worked in many industries; he was founder and CEO of Newalta Corporation from 1982-1992, founder and Managing Director of Anadime Corporation (1992-to present), Chairman of BelAir Energy Corporation (1997-present) and director of Answers.com, Inc. (1999-present). Mr. Pinnell has worked internationally in England, France, Zambia, United States, Canada and New Zealand

MURRAY D. SEARS is an Investment Advisor with Nesbitt Burns since March 2001. He was the founder and CEO of Granger Energy Corp., (a public oil and natural gas company), a predecessor company that merged with BelAir in 1998. Prior to Granger, Mr. Sears was a Vice President, Corporate Finance of with an international bank. Mr. Sears graduated from the University of Alberta with Bachelor of Commerce in Finance.

HARRY B. WHEELER has over 39 years of experience in the oil and gas industry in Canada and internationally. Mr. Wheeler founded Cabre Exploration Ltd. in 1980 and was Chairman of Cabre until it was sold in December 2000. Mr. Wheeler is a former Director of the Canadian Society of Petroleum Geologists, the Independent Petroleum Association of Canada and the Canadian Association of Petroleum Producers. He is a Director of Arcis Corp. and Vanguard Petroleum Corporation and a Trustee of the Enermark Income Fund. Mr. Wheeler graduated from the University of British Columbia with a Bachelor of Science in Geology and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA).

MARK D. WIDNEY is President and Chief Executive Officer of C-Tech Energy Services Inc., an oilfield services company listed on the CDNX, and has been an officer of Widney Industries since 1986. Mr. Widney been active in the oil and gas industry for twenty-five years and is a director and former Chairman of the Service Rig Division of the Canadian Association of Oilfield Drilling Contractors.

Officers of BelAir Energy Corporation

ANDREW I. BURNETT, Vice President, Exploration joined BelAir in October 1999. He has 25 years of experience and an established track record of exploration success in the western Canadian sedimentary basin in large and small companies. Prior to BelAir, Mr. Burnett was Vice President, Exploration with Gardiner Exploration Limited and Gardiner Oil and Gas Limited, building production in each company respectively from no production to 750 boepd and from 3,000 to 10,000 boepd. Mr. Burnett is a Professional Geologist in Alberta and holds a Master of Science in Geology from the University of Saskatchewan.

VICTOR M LUHOWY has over thirty years of experience in the oil and natural gas industry in western Canada. Mr. Luhowy has been President and Chief Executive Officer of BelAir since its inception in 1997. Prior to 1997, he was Senior Vice President and Chief Operating Officer of ELAN Energy Inc., a publicly traded oil and natural gas company. Prior to joining ELAN in 1990, Mr. Luhowy held executive positions with intermediate oil and natural gas producers based in western Canada. Mr. Luhowy is currently a director of Blackrock Ventures Inc., a publicly traded oil company. Mr. Luhowy is a Professional Engineer of Alberta and has a Bachelor of Science in Mechanical Engineering from the University of Alberta and received a Master of Business Administration degree from the University of Calgary.

KENNETH D. MACRITCHIE has twenty-one years of experience in the oil and natural gas industry primarily in oil and gas financing. Mr. MacRitchie has been Vice President, Finance and Chief Financial Officer of BelAir since its inception in 1997. Prior to 1997, he was an executive officer for two years with Equis Energy Corporation, a junior oil and natural gas company listed on the TSE and ASE. Prior to this, Mr MacRitchie had fourteen years of experience with three banks that specialized in oil and gas financing in western Canada. Mr. MacRitchie holds a Bachelor of Arts, Honours degree from York University and a Master of Business Administration degree from Dalhousie University.

KURT D. MILES, Vice President, Land, joined BelAir in October 2000. He has 24 years of experience in the oil and gas industry. Before joining BelAir, Mr. Miles was Vice President, Land and Contracts with Pursuit Resources Corp. Prior to this, Mr. Miles was employed by Encor Energy Corporation from 1987 to 1993 as Division Landman and progressed to manager of a multi-disciplinary resource development team. Mr. Miles holds a B.Sc. from the University of Calgary and is a member of the Canadian Association of Petroleum Landmen.

KENNETH T. A. SKEA, Vice President, Production, with BelAir since June 1999, has 24 years of experience in the western Canadian sedimentary basin, with both large and small companies. Prior to BelAir, Mr. Skea was Vice President, Engineering with Saxon Petroleum Inc. for five years where production increased from 300 boepd to 3,400 boepd. Mr. Skea spent ten years with private junior oil and gas companies with increasing responsibility rising from Manager, Engineering at Mont Resources Limited to Vice President, Development with Glencrest Energy Ltd. Mr. Skea is a Professional Engineer in Alberta and has a Bachelor of Science in Mechanical Engineering from the University of Saskatchewan.

WAYNE R. WILSON, Vice President, Corporate Development with BelAir since 1997. Mr. Wilson has thirty years of finance, administration and accounting experience in the oil and gas industry. Prior to BelAir, Mr. Wilson was Vice President, Finance of Equis Energy Corp., a junior oil and gas company after working 10 years with CN Exploration Inc, a private oil and gas company, where he advanced to General Manager, Finance and Administration. Mr. Wilson worked 23 years with Unocal Oil Company of Canada, a public oil and gas company, where he earned his Certified General Accounting (CGA) designation and rose to the position of Manager, Corporate Accounts. Mr. Wilson has a Master of Business Administration degree from Athabasca University.

www.belairenergy.com

BelAir ENERGY CORPORATION

e-mail:invest@belairenergy.com

2000 BelAir Annual Report Survey/Information Request

1. Did this annual report help you to better understand our business, strategy and future potential? ☐ Yes ☐ No
2. How did you first learn of BelAir Energy Corporation as a possible investment? ☐ Internet ☐ Broker ☐ Friend ☐ Other

   If other, please explain ______________________________
3. Do you access our Web site www.belairenergy.com for frequent updates? ☐ Yes ☐ No
4. How often do you use the Web site? ☐ 1-2 times a week ☐ 1-2 times a month ☐ 1-10 times in total visits ☐ Never
5. Have you seen the Corporate Presentation? ☐ Yes ☐ No
6. Please check the box that best describes you: ☐ I am a registered BelAir shareholder (I have the certificates)

   ☐ I am a non-registered BelAir shareholder (my broker/bank has the certificates) (Please see card below)

   ☐ I am an analyst ☐ I am a portfolio manager ☐ I am a potential shareholder ☐ Other ______________
7. If you would like to receive supplemental information, please indicate which information is of interest and provide your contact information.

   ☐ Annual and Quarterly Reports ☐ News Releases ☐ Annual & Quarterly Reports & News Releases ☐ Please remove me from your contact list

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To submit additional comments electronically, please visit our Web site at www.belairenergy.com or send an e-mail to invest@belairenergy.com

BelAir ENERGY CORPORATION

To Non-Registered Shareholders

National Policy Statement No. 41 / Shareholder Communication provides non-registered shareholders with the opportunity to elect annually to have their names added to the Supplemental Mailing List in order to receive interim financial statements of BelAir Energy Corporation. If you are interested in receiving such statements or other selective shareholder communications, please complete and return this form. (Please print)

Name:______________________ Company:______________________

Address:______________________ Prov/State:______________ Country:______________

Postal Code/Zip Code:______________ Phone:______________ Fax:______________ E-mail:______________

I would like to receive the following supplemental information:

☐ Annual and Quarterly Reports ☐ News Releases ☐ Annual & Quarterly Reports & News Releases

I certify that I am a non-registered owner of securities in the capital of BelAir Energy Corporation and request to be placed on the Supplemental Mailing List of BelAir Energy Corporation for its interim financial statements.

Signature______________________________

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Abbreviations

"bbls"	Barrels of oil or NGLs.
"bpd"	Barrels of oil or NGLs per day.
"Bcf"	Billions cubic feet of natural gas.
"boe"	Barrel of oil equivalent (natural gas @ 10 Mcf:1 bbl).
"boepd"	Barrel of oil equivalent per day.
"Established Reserves"	Proved plus half of Probable reserves.
"FD&A"	Finding, Developing & Acquisition (costs).
"GJ"	Gigajoule.
"Mbbls"	Thousands of barrels.
"Mboe"	Thousands of barrels of oil equivalent.
"Mcf"	One thousand cubic feet of natural gas.
"Mcf/d"	One thousand cubic feet of natural gas per day.
"MMbtu"	1,000,000 British Thermal Units
"MMcf"	One million cubic feet of natural gas.
"MMcf/d"	One million cubic feet of natural gas per day.
"Mstb"	Thousands of stock tank barrels of oil.
"NGLs"	Natural gas liquids.
"stb"	Stock tank barrels of oil (oil volume at 60°F and 14.65 pounds per square inch absolute).
"W.I."	Working interest.

BelAir